



CURRENCY

Committee on Financial Services

Michael G. Oxley, Chairman

For Immediate Release:

Contact: Peggy Peterson at 226-0471

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House Financial Services Subcommittee Approves Bills to Benefit Small Businesses and End Anti-Competitive Banking Laws

The Financial Institutions and Consumer Credit Subcommittee, led by Subcommittee Chairman Spencer Bachus (AL), today approved two bills to repeal outdated banking laws banning the payment of interest on certain deposits.

"Small business owners, particularly those in rural areas, and small-town bankers, are the folks who lose," said Bachus. "Smaller banks do not have the resources and technology to offer more sophisticated types of accounts, so they lose their ability to offer competitive services to their customers. Banks need to attract deposits to remain competitive in today's financial marketplace. Allowing them to pay interest to their business customers will help."

The Business Checking Freedom Act, H.R. 1009, introduced by Rep. Patrick J. Toomey (PA), was approved by a voice vote. The bill would repeal the Depression-era ban prohibiting banks from paying interest on business checking account deposits.

The legislation would especially benefit small businesses, which have disproportionately suffered because they are often unable to take advantage of complex banking mechanisms used to skirt the ban.

Rep. Toomey said, "Small business owners ought to earn interest on their money just like everyone else. It's time to adapt this Depression-era law to the realities of the 21st Century."

The Small Business Interest Checking Act, H.R. 974, introduced by Oversight and Investigations Chair Sue W. Kelly (NY), was also approved by a voice vote. The bill would authorize the payment of interest on deposits banks are required to hold with the Federal Reserve.

The current ban on interest payments is a disincentive for banks to maintain the reserves, which the Fed uses to conduct monetary policy.

House Financial Services Committee Chairman Michael G. Oxley (OH) said, "It's reasonable to expect a return for the use of capital. The government refuses to pay interest on bank deposits and forbids banks to pay interest on business checking deposits. In both cases, government policy is simply wrong and needs to be corrected. No more interest-free loans."

The legislation also provides the Fed increased flexibility in setting the reserve requirements.

In a separate provision the Kelly bill also increases -- from six to twenty-four - the number of times a month banks are allowed to "sweep" business checking deposits into interest-earning accounts, such as money market accounts.

Rep. Kelly said, "Bankers ought to have more flexibility to choose what kinds of services they offer to their customers. Government oversteps its bounds when it tells them they can't offer a simple feature like interest on checking accounts."

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